

Unit 1: Introduction to Business Environment

The word 'Business Environment' has been defined by various authors is as follows:

"Business Environment encompasses the -climate' or set of conditions, economic, social, political or institutional in which business operations are Conducted."—

Arthur M. Weimer

"Environment contains the external factors that create opportunities and threats to the business. This includes socio-economic conditions, technology and political conditions." – **William Gluck and Jauch**

"Business environment is the aggregate of all conditions, events and influences that surround and affect it."—**Keith Davis**

"The environment of business consists of all those external things to which it is exposed and by which it may be influenced directly or indirectly". —**Reinecke and Schoell.**

"The total of all things external to firms and industries that affect the function of the organization is called business environment."—**Wheeler**

"Civilizations require challenges to survive. Thus environment also contains hostilities and dangers that may be overcome by individuals and organizations."—

Arnold J. Toynebee

On the basis of the above definitions, it is very clear that the business environment is a mixture of complex, dynamic and uncontrollable external factors within which a business is to be operated.

Apart from this, Business Environment can also be defined as a set of conditions – Social, Legal, Economical, Political or Institutional that are uncontrollable in nature and affects the functioning of organization.

Features of Business Environment:

Following are the features of business environment:

- i. **Dynamic:** Business environment is dynamic in nature that means, it keeps on changing as the time pass by.
- ii. **Unpredictable:** The change in business environment is unpredictable. It is a very difficult to predict the exact nature of future happening and the changes in economic and social environment.
- iii. **Differ from place to place:** Business environment differs from place to place, region to region and country to country. Political, economical, etc conditions in Nepal differ from China and other nations.
- iv. **Interrelatedness:** The different factors of business environment are co-related. For example: Change in government may lead to change in economic policies.

- v. **Complex:** Business environment comprises of many factors. All these factors are related to each other. Therefore, their individual effect on the business cannot be recognized. This is perhaps the reason which makes it difficult for the business to face them.

Significance/Importance of Business Environment:

Business Environment refers to the “Sum total of conditions which surround man at a given point in space and time. In the past, the environment of man consisted of only the physical aspects of the planet Earth (air, water and land) and the biotic communities. But in due course of time and advancement of society, man extended his environment through his social, economic and political function.”

In a globalised economy, the business environment plays an important role in almost all business enterprises. The significance of business environment is explained with the help of the following points:

- i. **Help to understand internal Environment:** It is very much important for business enterprise to understand its internal environment, such as business policy, organization structure etc. In such case an effective management information system will help to predict the business environmental changes.
- ii. **Help to Understand Market Conditions:** It is necessary for an enterprise to have the knowledge of market structure and changes taking place in it. The knowledge about increase and decrease in demand, supply, monopolistic practices, government participation in business etc., is necessary for an enterprise.
- iii. **Determining Opportunities and Threats:** The interaction between the business and its environment would identify opportunities and threats to the business. It helps the business enterprises for meeting the challenges successfully.
- iv. **Giving direction for growth:** The interaction with the environment leads to opening up new frontiers of growth for the business firms. It enables the business to identify the areas for growth and expansion of their activities.
- v. **Continuous learning:** Environmental analysis makes the task of managers easier in dealing with business challenges. The managers are motivated to continuously update their knowledge, understanding and skills to meet the predicted changes in realm of business.
- vi. **Image building:** Environmental understanding helps the business organization in improving their image by showing their sensitivity to the environment with which they are working.
- vii. **Meeting competition:** It helps the firms to analyze the competitors' strategies and formulate their own strategies accordingly.

- viii. **Identifying firm's strength and weakness:** Business environment helps to identify the individual strengths and weakness in view of technological and global developments.

Components of Business Environment

The components of business environment are classified into two broad categories.

1. Internal Environment

2. External Environment

1. Internal Environment: It is defined as all the controllable forces and conditions within an organization that influence organizational behavior. An organization's internal environment has following sub components:

- a. Employees: They are the main components and important assets of organizations. They are responsible to work as per the direction, goals, rules and regulation of the company. For their better performance, organizations have to motivate and satisfied them with fair and equitable rewards policies. The organizations' productivity can be enhanced only by the dedication, loyalty, and cooperation of employees.
- b. Shareholder and Board of Directors: Shareholders being the owners of business, have a direct interest in the performance of the organization. The board of directors is elected by them (shareholders) who represents shareholders' interest in the board. The board is responsible to manage company and formulate appropriate plans. They evaluate overall organizational performance and provide direction to the top level management for the growth of an organization.
- c. Organizational culture: Every organization has its own culture. Culture refers to set of values, beliefs, norms of an organization under which it operates. It helps to bind all the employees and comply with organizational rules and regulations. Culture has a powerful influence on the process of organizational change and decision making.
- d. Labour Union: Labour union represents the employees or labor working in an organization. It takes problems and feeling of the labors to the management for constructive solutions. The good relation between labor union and management avoids unnecessary disturbances in organizations.
- e. Organizational Structure: Structure is a framework of an organization. It clarifies the authority and responsibility roles and relations, hierarchy of management and coordination activities for business.

2. **External Environment:** External environment is the condition and forces outside the organization that are relevant to its operation and influence the organizational activities. There are two categories of external environment. They are:
 - a. General Environment
 - b. Task/Operation Environment
- a. **General Environment:** General environmental factors have indirect impact on the activities and outcomes of the firms. Following are the components of general environment:
 - i. **Political Environment:** It refers to the influence from government institutions, strategies of political parties, policies of state and local government and relationship between government and business. Managers must know about political environment because:
 - It imposes certain legal constraint on the business.
 - It establishes a market atmosphere that maybe pro-business or anti-business.
 - It has the potential to provide stability needed for long-term planning.
 - ii. **Economic Environment:** Economic conditions are critical to the success of the organizations. It is defined as the nature and direction of the economic system of a country and their impact on the individual organization. The economic factors such as: national income, saving, investment, monetary policies, economic growth, interest rate, consumption pattern etc, have great impact on functioning of an organization. Therefore, managers should devote much of their time and resources to forecast the economy and possible changes.
 - iii. **Socio-Cultural Environment:** The socio-cultural environment affects the behavior of people and their organizations. It includes values, belief, lifestyle, family system, opinions and assumptions widely held by the citizen of the particular country. These elements of society impact the business organizations.
 - iv. **Technological Environment:** Technology is the practical application of scientific knowledge. Radical development has occurred over the past several years in communication, information and automation including robotics. This development brings both opportunity and threats for the organizations. Thus, organizations should utilize their strength to gain from opportunity and neutralize the threats.

- b. Task Environment: Task environment has direct impact on the operation of the firms. Following are the components of task environment.
 - i. Customers: Customers exchange resources, usually in the form of money for an organization's product and services. A customer maybe an individual, family, a business house or an institution. Customer not only buys the product or services they also give valuable ideas, opinions and reaction related to it. Thus, manager should maintain close relationship with them.
 - ii. Suppliers: Suppliers are the organizations which provide resources like materials, men, machines etc to other firms. As the quality and price of the raw material received from the suppliers determine the quality of the output, the business firm tries to obtain lower prices, better quality and fast deliveries. This strengthens the competitive position of organizations.
 - iii. Government: The role of the government is to regulate business system and to protect the interest of customers and general public. It formulates rules and regulation, business policies etc under which every firms need to operate. Therefore, government has great influence on corporate policies, procedures and business practices of modern organizations.
 - iv. Competitors: It refers to organizations that compete for resources with other organizations and provides the similar or substitute product and services to the same group of people. The organization must analyze the competition and established clearly defined marketing strategies in order to provide superior customer satisfaction and to increase market share.
 - v. Media: The media keeps eye on the vital decision or actions of the business firms having general public interest. Therefore managers need to have good communication with both media and external audiences and deal with them effectively and promptly.
 - vi. Financial institutions: Organizations depends on a variety of financial institutions such as: banks, insurance companies, capital markets, etc to supply fund for maintaining and expanding their business activities. The terms and conditions of loans and advances and quality of promptness of their services have an impact on the performance of business firms.
 - vii. Special Interest Group: It refers to environmentalist, unions, consumer advocates, civic society and other professional organization. These organizations pressurized the company to advance their position on the issues like quality services, reasonable price, waste management, environmental protection etc.

Environmental Scanning

Environmental scanning is X-ray of the environment. It is defined as the process of understanding the dynamism and trends of environment. In other words, it is the process that seeks information about events and relationships in a firm's environment, the knowledge of which help top management chart the firm's future.

Furthermore, Environmental scanning is a process that systematically surveys and interprets relevant data to identify external opportunities and threats. An organization gathers information about the external world, its competitors and itself. The company should then respond to the information gathered by changing its strategies and plans when the need arises.

Environmental scanning entails partitioning the external environment into sectors, namely, cultural, economic, political, technological, and so on. This helps establish a firm's information needs within those sectors. Data are usually collected by monitoring and forecasting changes in important variables identified in each sector. That data are then transformed into consolidated information, which is integrated into the firm's strategic planning process (Georgantzas and Acar 1995).

Environmental scanning is used to gather information from the environment. This information is used to craft a strategic plan that will help an organization achieve and maintain a competitive advantage. In order to be successful, the organization must align its strategies and plans with the information gathered from the environmental scanning.

Types of environmental Scanning:

- i. **Concentric scanning:** If only one factor of the environment is being analyzed to identify its cause and effect along with its cost and benefit, then it is called concentric scanning. For example: examining only economic environment to know the possible future profit prospects.
- ii. **Comprehensive scanning:** If all the factors of the environment are being analyzed to identify their cause and effect along with their cost and benefit, then it is called comprehensive scanning.

Process of Environmental Scanning

Following process is adopted in environmental scanning:

1. **Study of forces and nature of environment:** This is the first step of environmental scanning in which organization studies the nature of environmental forces and their trends.
2. **Determine the sources of information:** A company can obtain information from different sources, but it should be ensured that the information is correct. The correct source should be tapped for specific information for more accuracy. Information received from secondary sources may sometimes even misguide strategy managers. Hence, it is important that information should be verified for correctness before it is processed and decisions are taken based on it. Different sources used to collect the information are:
 - Secondary sources: Newspaper, research articles, publications etc.
 - Mass media: Radio, TV , internet etc
 - Internal sources: Management information system, financial reports, etc.
 - External agencies: consumer, suppliers, distributors etc.
 - Formal research by organization and research agencies etc.
3. **Determine the Approaches to Environmental Scanning:** The experts have suggested three approaches, which could be adopted for, sort out information for environmental scanning.
 - **Systematic Approach:** Under this approach, information for environmental scanning is collected systematically. Information related to markets and customers, changes in legislation and regulations that have a direct impact on an organization's activities, government policy statements pertaining the organization's business and industry, etc, could be collected continuously updating such information is necessary not only for strategic management but also for operational activities.
 - **Ad hoc Approach:** Using this approach, an organization may conduct special surveys and studies to deal with specific environmental issues from time to time. Such studies may be conducted, for instance, when organization has to undertake special projects, evaluate existing strategy or devise new strategies. Changes and unforeseen developments may be investigated with regard to their impact on the organization.
 - **Processed-form Approach:** For adopting this approach, the organization uses information in a processed form available from different sources both inside and outside the organization. When an organization uses information supplied by government agencies or private institutions, it

uses secondary sources of data and the information is available in processed form.

4. Scan and Assess the trend: Finally organization specifies relevant environmental trends and their behaviors. And assess them in terms of opportunities and challenges.

Techniques/Methods of Environmental Scanning

Following are the methods of environmental scanning:

- a. Executive opinion method: Under this environment is forecasted on the basis of opinion and views of top executives.
- b. Delphi Techniques: Outsides experts are used in scanning the environmental factors and their impacts.
- c. Extrapolating method: Under this method past information is used to predict the future. Trend analysis, regression analysis etc is being used to identify the trends.
- d. Scenario building: Under this method, different scenario that may reflect the future are built. These scenarios address the contingencies and help in better understanding the changes and impacts of the environmental factors.

Environmental Analysis

It is a process of identifying the relevant factors that have direct or indirect impact on effective and efficient functioning of business.

In other words, Environmental analysis is a strategic tool. It is a process to identify all the external and internal elements, which can affect the organization's performance. The analysis entails assessing the level of threat or opportunity the factors might present. These evaluations are later translated into the decision-making process. The analysis helps align strategies with the firm's environment.

Process of environmental analysis:

Environment analysis is managerial decision-making based on the assessment of opportunities and threats in the environment. The steps in environmental analysis are:

1. Scanning: It involves information gathering for assessing the nature of the environment in terms of uncertainty, complexity and dynamics. It includes:
 - a. Identifies early signs of future environmental changes. They are indicated by trends and events.
 - b. Detects changes already underway. They are happening.

2. Monitoring: It involves tracking environmental trends and events. It is auditing of environment. The likely impact of environmental influences on business performance is identified.
3. Forecasting: This step forecast what is likely to happen. It lay out of path for anticipate changes. This step provides:
 - a. Key forces at work in the environment. They can be political-legal, economic, social, cultural, and technological.
 - b. Understanding of the nature of key influences and drivers of change.
 - c. Projection of future alternatives paths available.
4. Assessment: This step identifies key opportunities and threats. The competitive position of business analyzed in terms of how the organization stands in relation to other organizations competing for some resource of customers.
 - a. Opportunities are a favorable condition which creates risks and weakens the competitive position.
 - b. Threat is an unfavorable condition which strengths, organization's competitive position of the organization.

Environment-Business Relations:

Business is the product of the technological, political-legal, economic, social – cultural, global and natural factors amidst which it functions. Three features are common to this web of relationship between business and its environment.

- i. There is symbolic relationship between business and its environment and among the environmental factors. In other words, business is influenced by its environment and in turn, to certain degree, it will influence the external forces. Similarly, political-legal environment influences economic environment and vice versa. The same relationship between other environment factors too.
- ii. These environmental forces are dynamic. They keep on changing as years roll by, so does business.
- iii. The third feature is that a particular business firm, by itself, may not be in a position to change its environment. But along with other firms, business will be in a position to mould the environment in its favor.

Unit 2 Political Environment

It refers to the influence from government institutions, strategies of political parties, policies of state and local government and relationship between government and business. Managers must know about political environment because:

- It imposes certain legal constraint on the business.
- It establishes a market atmosphere that maybe pro-business or anti-business.
- It has the potential to provide stability needed for long-term planning.

For systematic study of political system, a business firm should, first of all, analyze the national constitution, major political parties, form or structure of government, the mechanisms designed to guide a transition of power from one leader to the next, key power blocks, and the extent of popular support.

Components of Political Environments:

1. Political Ideologies: They refer to the set of ideas , principles and philosophy which are concerned with allocation of power and offer political and cultural outlook. The major political ideologies are democratic and totalitarian.
 - i. Democratic: The political ideology under which the nation is governed by the people representatives. The power lies in the hand of people. There is always the freedom to speak, political rights, civil liberties. Besides there is the existence of multiparty and private sector has greater role in national economy.
 - ii. Totalitarian: Totalitarian is an ideology under which total power is vested in a single person, or a group or a government. Totalitarianism aims at regulating all aspects of public and private life. Freedom, political rights and civil liberties are restricted. Only one party system exists.

Democratic V/S Totalitarian

Summary	Totalitarian	Democracy
Definition	A government type that permits no individual freedom	Government for the people, by the people and of the people
History	A government type with	A type of government of

	oppressive rule originated in 4 th century B.C	5 th century BC
Place of origin	Asia	Athens, Greece
Famous leaders	Adolf Hitler, Joseph Stalin	Aristotle, Franklin Roosevelt, Mahatma Gandhi
Advantages	Faster process for the system, Law making process, simpler, less room for corruption	Freedom, majority rule, People's right, power of voting.
Rule	Single rule	Majority rule
Succession	Neither Heritance nor Elective	Elective
Parliament	Absent	Present
Constitution	Absent	Present

2. Constitution: It is a fundamental guideline or law under which nation functions. It affects the development of business in the country directly. Nepal is being ruled by the new constitution 2072 after promulgated on 3rd of Aswin 2072 (20th September 2015).

The major directive principles stated by new constitution are:

- i. The political objective of the state is to establish federal democratic republican system to ensure the use of democratic rights by keeping sovereignty, independence and integrity at the highest level.
- ii. The socio-culture objective of the state is to end all forms of discrimination, exploitation and injustice based on religion, culture, custom, tradition and usage by respecting cultural diversity.

- iii. The economic objective so the state is to develop sustainably through equitable distribution of resources and promote participation of the public cooperative and private sectors.
- iv. The international relations of the state are directed towards enhancing the dignity of the nation in the international arena.

The major features of the new constitution are:

- i. 7 states in Nepal (Name to be given later with the help of special committee)
- ii. Discussion to continue on contentious issues and amend of some provision until the final one.
- iii. Vote of dissents are not a part of the draft but put there for further discussion
- iv. Citizenship by Father Name or mother name.
- v. Citizenship to NRN (Non-resident Nepalese).
- vi. 60 percent FPTP and 40 PR in state assemblies as well.
- vii. Secularism to continue with freedom of any religion.
- viii. Bicameral legislation (275 Parliament and 45 National assembly members)
- ix. New Prime Minister, President and Parliament head election to be held within a month after promulgation of new constitution.
- x. Five unchangeable provisions.

(Note: Changes on constitution is underway so students are advised to updated the changes)

3. Political Parties: Political parties are the building blocks of democratic system. They act as representatives of people and address their problems. Through legislation, they attempt to form government and rule the nation according to their ideology and policies.

There are more than 100 political parties in Nepal. Out of them 25 parties have representation in the legislative assembly. The major political parties of Nepal are:

- i. Nepal Congress
- ii. Communist Parity of Nepal (Unified Marxist-Leninist)
- iii. Unified Communist party of Nepal (Maoist)
- iv. Rastriya Prajatantra Party Nepal
- v. Mesdhesi Jana Adhikar Forum Nepal (Loktantrik)
- vi. Rastriya Prajatantra Party
- vii. Mesdhesi Jana Adhikar Forum Nepal

viii. Tarai-Madhesh Loktantrik Party.

4. Government and Its Branches:

- a. Legislative: Legislative is formed by the representative of people. It is also called parliament. Its main responsibility is formulation and enactment of law.

According to new constitution, the legislature of Nepal is divided into three levels:

- i. Federal Legislature: It is the legislature at the central level. It consists of the houses, namely the House of Representatives and the National Assembly. The House of Representative consists of 275 members. National assembly consists of 45 members and is a permanent house. One third of members retire in every two years.
 - ii. State Legislature: Each state has legislation called state assembly. Unlike federal legislation, it has a single house.
 - iii. Local Legislature: The legislative rights at local levels are entrusted to village council (*Gaon Palika*) and municipal council. They can make laws according to state laws.
- b. Executive: It refers to the organ of the state that is responsible for the overall administration of the nation. It is composed of the government and its organs as bureaucracy, army, police etc.

According to new constitution, the executive of Nepal consists of the following:

- i. Federal Government: It is the central government. The form of governance will be multiparty competitive federal democratic republican parliamentary system based on pluralism. The Council of Ministers led by the Prime Minister has the executive power of Nepal. It is responsible for issuing general directives, controlling and regulating the administration.
 - ii. State government: The executive power of the state shall be inherent in the council of ministers of the state led by the chief minister.
 - iii. Local government: Village council and municipality and district assembly will remain under the local government.
- c. Judiciary: It refers to court of law. It is responsible for settling disputes and interpreting the rules and laws if required. It serves as the watchdog of law and constitution.

According to new constitution, the judiciary of Nepal is divided into four levels:

- i. Supreme Court: Supreme Court is an apex court in judicial hierarchy. It may inspect, supervise and give directives to its subordinates courts and other judicial institutions.
- ii. High Court: There shall be one High court in each state.
- iii. District Court: There shall be one district court in each district. It has jurisdiction over local level cases.
- iv. Specialized courts: They are established for the purpose of hearing special types of cases. They may be judicial bodies or tribunals.

Other constitutional bodies in Nepal according to new constitution 2072 are:

- i. The commission for the Investigation of Abuse of Authority.
- ii. Office of the Auditor General
- iii. Federal Public Service Commission.
- iv. Election Commission.
- v. National Human Rights commission
- vi. National Natural Resources and Fiscal Commission.
- vii. National Women Commission.
- viii. National Dalit Commission.
- ix. National Inclusive Commission.

Business Government Relationship

Government and business institutions in a country in many ways are interrelated and interdependent on each other. In today's global economy, its businessmen and entrepreneurs are the driving forces of the economy. In planned economy or even in market economy government holds control of shaping the business activities of a country.

For maintaining a steady and upward economic growth The Government must try to make the environment for business organizations suitable. And the organizations must follow the laws of governments' to run the businesses smoothly and making sure there is a level playing field.

The main goal of businesses is to make profit and governments' goal is to ensure economic stability and growth. Both of them are different but very co-dependent. For this the government and organizations or businesses always tries to influence and persuade each other in many ways for various matters. A balanced relationship

between the government and businesses is required for the welfare of the economy and the nation.

Furthermore, the relation between government and business can be explained by the following points.

1. Role of government towards business sectors/Government relation with business : The role of the government towards business can be viewed in three categories:

- a. As a business **promoter**
 - b. As a business **regulator**
 - c. As a business **caretaker**
- a. Promoter : Government promotes business in following ways:
- i. Infrastructure and manpower development: Government provides the facilities like transportation, information technology, communication, water supplies, waste disposal, civic amenities facilities, etc. Besides, the government also conducts different educational and training program for the development of technical and professional manpower in nation. These activities facilitate business development.
 - ii. Public enterprise: Government establishes different trading and manufacturing organization to deal in essential goods and services. They play and entrepreneurial role in setting up industries.
 - iii. Source of information: Since, the government is the largest organization in a country, it has abundant information which can be used in business. Thus, government acts as a source for information and provides to the business.
 - iv. Financial Assistance: Government provides low cost finance through its financial institutions like Nepal Rasta Bank, Provident fund, Citizen Investment fund, Agriculture development bank etc. for industries.
 - v. Incentives and subsidies: Government facilitates business by providing subsidies to the growing and sick industries. It also provides incentives to the business producing essential goods and services to maintain low cost to the people.
- b. Regulator: As a regulator government formulates different rules and regulation to operate the business smoothly. Businesses much comply with such regulation. The different business related regulations in Nepal are: Private Firm

Registration Act, Trade union Act, Company Act, Labour Act, Food Act, Foreign Exchange Regulation etc. Besides, there are different policies such as Monetary Policies, Fiscal Policy, Trade Policy, Industrial Policy, etc government enacted for the development of business.

- c. Caretaker: As a caretaker government provides protection from the political risk factors such as: extortion, band, unrest etc. Apart from that, it formulates and implements strict rules and regulation to protect intellectual property rights.

2. **Role of business towards the government/ Business relation with government:** Business plays vital role to support the government. They are as follow:

- a. Payment of taxes: Taxes are the major revenue to the government. Business organizations pay various taxes to national and local government. Besides, businesses also assist government in collection of taxes by deduction tax at source on salary and other payment.
- b. Rendering of advice: Business organizations work side by side with the government to help in formulation of different effective business plans and policies to develop sound economic condition of the nation.
- c. Source of information: Business organization provides valuable information regarding the current business trend and problems, which is helpful in better decision making by the government
- d. Execution of contracts: Businesses help government to execute its different developmental projects and programs. It also renders supplies and materials for the better functioning of the government.

Nepalese Political Environment: Issues and Problems

Business and politics are interrelated with each other. Any changes in political dynamics can hit the business hardly. The recent blockade and *Tarai* strike has created colossal damage to the business sector in Nepal. So we must assess the political change and its impact in business effectively to ensure the future success.

The issues of political environment in Nepal can be explained as follows:

- a. Political Instability: Political instability is the frequent change of government. The change in government creates change in policy which adversely affects the development of business sectors. In Nepal there are altogether 22 government in 25 years. This leads to weak government control and ineffective implementation of law.

Forced donation, kidnapping ,threatening are common because of instable government.

- b. Lack of broader vision on political parties: The main stream political parties suffer from the lack of broader vision, policy and programs which are essential for good governance, political stability and economic development. This creates low confidence level to the private sectors.
- c. Poor understanding among the political parties: Lack of trust and egos between political parties causes poor understanding between them. They are unable to build consensus even in national issues. This adversely impacts the long-term growth of business sector in Nepal.
- d. Lack of democratic thoughts: Most of the main stream parties found very weak in developing democratic norms, values, belief within them. This limits the concept of sovereignty to people only in papers. Such behaviors negatively affect the business industry functions.
- e. Lack of good governance: Good governance is being accountable, transparent, responsive, inclusive in making and implementing decision. However, according to Amnesty international in 2014 Nepal rank 126th out of 174 countries in the world in governance. This data show how weak our government is in policy formulation and its implementation.
- f. Labour force as political force: Most of the labour unions are politically oriented, multiplicity and outside leadership. The psychological distance between the management ,labour and government is very wide. The government has not been able to play regulatory , adjudicatory and developmental roles as effectively as expected.
- g. Employers' Association: The employers' associations in Nepal are found to be influenced by politics. They are unable to create good relation between labors and government. They are focused only on short-run profit and pressurize the government to formulate the laws which benefits them a lot in their standing.

Unit 4

Economic Environment

Economic Dimension of Nepalese Economy:

It includes gross national product, per capita income, personal consumption and expenditure, personal ownership of goods, inflation rates, private investment, unit labor cost and level of employment. As per the Economic Survey 2014/15 the economic dimension of Nepal is as follows:

1. The GDP growth is 3% (contracted by 2.1% at basic price) on 2014/15 as compared to last year which was 5.1% in 2013/14. The contraction is due to low growth rate of agriculture and impact of April 25 earthquake and subsequent aftershocks.
2. The average inflation rate stood to 7.2 % in 2014/15, which is reduced by 2.1% as compared to last year. The fall in inflation rate is due to fall in price of petroleum products in international markets.
3. The overall BoP was in a surplus of Rs 127.20 billion in 2014/15. This is due to increase in remittance by 11.2 % to USD 5.55 billion in this period.
4. In the review period, total trade deficit expanded by 8.7 percent to Rs. 612.87 billion. Such deficit had increased by 28.6 percent during the same period of the previous year.
5. The gross foreign exchange reserves increased by 21.7 percent to Rs. 809.48 billion in mid-June 2015 from Rs. 665.41 billion in mid-July 2014. Based on the trend of imports during the eleven months of the review year, the existing level of reserves is sufficient for financing merchandise imports of 13.1 months, and merchandise and services imports of 11.3 months.
6. Despite the decline in the number of Banks and financial institutions (BFIs) due to merger and acquisition, financial access has been widened due to branch expansion as well as an expansion of some products such as mobile banking and branchless banking.
7. In this year, production of paddy (rice), which contributes 21 percent to agriculture GDP, has declined by 5.1 percent owing to adverse climate. Likewise, production of maize (corn) among the major crops is estimated to have declined by 6.0 percent as well. In FY 2014/15.
8. The fishery sector is estimated to grow by 6.3 percent in the current fiscal year 2014/15 as compared to 4.9 percent growth in the previous fiscal year.

9. Performance of manufacturing sector has not been satisfactory during the last decade. Manufacturing sector has been adversely affected for long due to lack of improvement in the investment environment; persistent energy crisis; uneasy labor relations; ever extending political transition.

Issues and Challenges

- a. Macroeconomic stability is influenced by both internal and external factors. Along globalization, economic growth, inflation, and trade like macroeconomic variables get influenced by external happenings and incidences. In the context of globalization, external sector has been posing numerous challenges against maintaining macroeconomic stability.
- b. Agriculture sector has occupied one third share in GDP. Fluctuations in agriculture GDP has been affecting overall economic growth rate. In the context of Nepal's vulnerability of agricultural production on favorable/unfavorable climatic conditions, achieving higher growth rate through sustainable development of this sector has been a 17 persistent challenge. Likewise, non-agriculture sector has also been affected as a result of failure to expand domestic and foreign investments to desirable extent owing to factors like political instability, labor problem, energy crisis, weak infrastructure and failure to achieve desired progress in investment environment. Hence, it has been a daunting task to improve investment environment and achieve higher economic growth rate by bringing ever extending political crisis to an end.
- c. High and sustainable economic growth is a must criterion for Nepal to graduate from a least developed country to developing country by 2022. It is difficult for the country to graduate to the status of developing country unless it achieves a consistent annual economic growth rate of 7-8 percent. Amidst country's average economic growth rate of just 4.1 percent in last five years, achieving the target with the attainment of higher economic growth by boosting investment remains a challenge.

Concept of Monetary Policy

“Monetary policy is the management of the expansion and contraction of the volume of money in circulation for the explicit purpose of attaining a specific objective such as full employment”. (Kent)

The objectives of monetary policy are as follows:

- a. To stabilize the price level since fluctuations in prices bring uncertainty and instability to the economy.
- b. To increase investment for full employment.
- c. To have the rapid economic growth with stability.
- d. To maintain equilibrium in the balance of payment.

Current Monetary policy of Nepal (2014/15):

The monetary policy 2014/15 introduces several measures such as checking inflation, increasing Cash Reserve Ratio (CRR), increase in paid up capital for banks and finance companies, increase loan loss provision etc. to strengthen and ensure the economic development of Nepal.

Following are the objectives of Monetary Policy 2014/15:

- a. Maintaining price stability by managing excess liquidity.
- b. Expand credit to the productive sectors.
- c. Maintain financial sector stability.

Privatization: It is the process of transferring of ownership property or business from the government to the private sector. Privatization is considered to bring more efficiency and objectivity to the company, something that a government company is not concerned about. In Nepal, privatization efforts were initiated in early 1990s from sixth plan.

Objectives of privatization:

- a. Effective mobilization and utilization of resources.
- b. Increase competitiveness of organizations.
- c. Government budget improvement.

Methods of Privatization: Following are the methods of privatization:

- a. **Assets Sales:** Under this method, the production and service units and other assets of enterprises are transferred to the private sector in return for a price. Assets are sold through public auctions.
- b. **Business sales:** Under this method, the total ownership of public enterprises is transferred to the private sector.

- c. Share sales: It involves the transfer of share to the general public, employees and private organization.
- d. Management contract: It involves transferred of management right to the private sector for a temporary period of time. The main objective of such process is to improve the productivity of the public enterprises.
- e. Lease assets: Under this method, government provides right to the private sector to use the property. It is temporary in nature and private sector should pay the lease amount for its usage.

Liberalization: It is the removal of government control to encourage private participation and economic development.

“Economic liberalization means freeing of prices, trade and entry to markets from state control while stabilizing the economy. (World Bank)

In Nepal liberalization policies were implemented from 1990 with higher emphasis on privatization and open market policies. Different policies like Industrial Policy, Foreign investment Policy, Labor Act etc. promulgated and implemented to support liberalization in Nepal.

Requirements of Liberalization:

Following are the requirements for liberalization:

- a. Role of the government as the facilitator
- b. Increased role of private sector
- c. Abolishing license requirements
- d. Freedom in business decision (establish and liquidate business)
- e. Removal of restriction (movement of goods within and between countries.)
- f. Reduction of tax rate (corporate tax, tariffs etc)
- g. Simplification of foreign trade.
- h. Facilitate FDI and technology transfer
- i. Current account and capital account reform (current a/c reform: making foreign exchange convertible, capital a/c reform: maintaining account in convertible currencies)

Internal and External Liberalization

1. Internal liberalization: It means reducing the restriction in business operation.

It can be done in various forms:

a. Financial sector reform: The main objective behind financial sector reform is to create financial stability and economic development. It includes:

- i. Deregulation of investment rate ,which can allow banks to determine the interest rate under certain range given by central bank.
- ii. Restructuring of government owned banks like Nepal bank limited and Rastriya Banijya Bank.
- iii. Enactment of different Nepal Rastra Bank Act.
- iv. Banking sector is opened for foreign investment. Etc.

b. Fiscal reforms: These reforms include, reform in tax, convertibility of Nepalese currency etc.

- i. Introduction of VAT
- ii. Private sector is allowed to borrow money from foreign source etc.

c. Monetary policies: It includes deregulation in interest rates, foreign exchange rate etc.

d. One window policy: Providing every business service from a single place for prompt services.

e. Removal of subsidies

f. Insurance sector reform

g. Capital market reform etc.

2. External Liberalization: It includes liberalization on trade and foreign exchange sectors.

a. Reforms in trade sector

b. Reforms in foreign exchange

i. Current account reform

ii. Capital account reform

Effects of liberalization on Nepalese Business:

a. Growth of private sectors

b. Rise of financial institutions

- c. Increase in FDI
- d. Rise of MNCs
- e. Rising trade deficit
- f. Development of capital market and insurance
- g. Changing role of government
- h. Changing market scenario.

An overview of Nepalese Industrial Sector

1. General Overview:

- Government target to uplift from least developed country to developing country by 2022.
- Industrialization begins in Nepal from 1936 by the establishment of Biratnagar Jute mills, Morang Cotton Mill (1941), Morang Sugar Factory (1946), Raghupati Jute Mill (1946) Juddha Match Factory (1946).
- After the establishment of democracy in 1950 (2007 BS), the pace of industrialization is found to be accelerated.
- After restoration of Democracy in 1990 (2046/2047 BS) and adoption of modern liberalization policy the pace of industrialization is found to be accelerated significantly.
- As per the data 2013/14 the total number of industries in Nepal reached to 5,931 with employment to 4,94,407 person.

2. Structure of Nepalese Industrial Sector:

- a. Classification on the basis of nature of output
 - Agro and forest based industries
 - Manufacturing industries
 - Export oriented industries
 - Energy based industries
 - Mineral industries
 - Tourism industries
 - Construction industries

- Information and communication industries
 - Service industries
- b. Classification on the basis of size and investment:
- Micro-enterprises (fixed assets from 0.2 million to 2 millions)
 - Cottage industries
 - Small industries : fixed assets upto 50 millions
 - Medium industries : fixed assets more than 50 millions upto 150 millions
 - Large industries: more than 150 millions

3. Performance:

- a. Capital investment: The amount of capital investment is one indicator of the performance of industries:

- Energy sector: 60.2%
- Production oriented sector :17.9%
- Service sector :8.6% (2013/14 data)

- b. Employment Generation:

- Production oriented sector (278,062 person)
- Services sector: 102,305
- Tourism sector : 47,206

The total employment generated in 2013/14 is 14,501. Out of which tourism sector contribute highest 29.79%, production oriented 23.62% and service sector 22.40%.

- c. Foreign Investment

- Total foreign investment reached 17,888.65 million in 2013/14.
- 3172 industries generating 201720 employments.
- services 32.28%
- Production oriented 28.50%
- Tourism 27.55% (2013/14)
- 305 industries obtain license in 2013/14 which is less by 3.78 % preceding year.

- d. Capacity Utilization:

- Average capacity utilization by industries is 51.3%. (2013/14)
- Tea industries 93.4% (highest)

- Rice 13.4 % (lowest) (due to floods)
- Issuance so industrial loan increased by 12.4%
- e. Contribution to GDP:
 - Contribution is decreasing
 - 16.08 % in 2006/007
 - 14.46% in 2013/14 (lack of investment climate ,political condition and energy crisis)
- f. Growth rate:
 - Average growth rate from 2005/06 to 2013/14 is 3.29%.
 - Growth rate of 2013/14 is 6.19%

4. Problems of Industrial Sector in Nepal

- a. Political instability
- b. Government policy and regulation
- c. Lack of energy
- d. Lack of security
- e. Quality of product
- f. Weak technology
- g. Low capacity utilization
- h. Lack of physical infrastructure
- i. Labour regulation and labour unions

Natural Environment in Nepal

- Nepal is rich in natural resources.
- It is a source of food supply, energy, medicine and input of industries.

Components of Natural resources:

- a. Forest
- b. Water
- c. Minerals

a. Forest: Total land occupied by forest in Nepal:

- 37.7% in 1990
- 27.2% in 2000
- 25.4% in 2010
- Continuous decrease in forest seriously threatened the Natural Environment.
- Source of paper, timber, furniture, medicinal herbs.

- Habitat of many kind of wild birds and animals.
- Support agriculture as it causes rainfall.
- Around 19% of forest in Nepal is covered by **National parks, Wild life Reserves, Conservation Area, Hunting area, and Buffer Zones.**

b. Water:

- Nepal is one of the richest country in the water resources.
- The total length of approx. 600 rivers in Nepal is estimated to be 45000 km.
- High prospects of Hydroelectricity.
- Theoretically 83000MW, Practically 40000MW
- Total electricity generation 782.45MW at the ending periods of eight months of 2014/2015.

c. Minerals:

- Iron, copper, mica, limestone, lead, coal, magnisite, natural gas found in Nepal
- 1% contribution to GDP

Area where minerals were found:

- Iron ore: Fulchoki, Labdikhola, Jirwant, Those
- Copper: Bhotekhola, Gyaji, Arkhaule
- Mica: Bajhang, Chainpur, Doti, Bhojpur, Nuwakot
- Lime stone: Chovar, Jogimara, Bhaise, Rasuwa
- Lead: Durlang, Baglung, Rasuwa
- Coal: Dang, Salyan, Kathmandu, Chitwan
- Gold: Narayani river

Energy Situation in Nepal

- Energy is required for economic and social development. Development of trade and industry largely depends upon the energy.
- Despite high potential for generating energy through abundant water resource, energy crisis has continued to grow.
- 72.60% of total energy generated in Nepal is by firewood source. 14% increased in 2013/14 alone. This possesses threat to forest of Nepal.
- 2.59 % of total energy consumption is generated by renewable energy sources. The use of renewable energy is drastically increased by 75.3% in 2013/14.

a. Electricity:

- Out of total capacity, Less than 2% of electricity is produced.
- Number of customer increased 4.4%
- Number of line distribution increased 1.7%
- Demand of electricity increased by 9.8% in 2013/14.

b. Petroleum Products: (petrol, diesel, kerosene, Aviation turbine fuel, LP gas, Furnace Oil)

- 11.25 % of the total energy consumption is provided by petroleum products.
- 6.9% increased than previous year.
- Full depend on India.
- Now agreement with China for petroleum products.
- Total consumption in first eight month of 2014/15: 1,305,601 KL

Emerging Business Environment in Nepal

- Increased Private investment
- Growing Urban Population: 13.4% in 2000, reached to 18.2% in 2010 and increasing.
- Rising informed and educated customers
- Changing role of government
- Rising economic agendas
- Use of modern technologies
- Integration to the world economy
- Shifting social cultures
- Shift towards service industry
- Work force diversity

Unit 3 Social-Cultural Environment

What?

Social Cultural Environment is defined as a set of beliefs, customs, practices, and behavior that exists within a population or society. (Business Dictionary)

In other words it refers, to the immediate physical and social setting in which people live or in which something happens or develops. It includes the culture that the individual was educated or lives in, and people and institution with whom they interact. (Wikipedia)

****Society:** It is the set of relation among people, including their social status and roles.

****Culture:** It is the sum total of mankind's knowledge, beliefs, art, morals, laws, and customs and any other capabilities and habits acquired by human beings as member of society. (P.R Panta, 2011)

Why to study socio-cultural environment?

1. Business Organization is a social system.
2. Business Organization is established in a society to fulfill the demand of the society.
3. Business cannot run in isolation, there need people as owner, as a consumer, as a employees, as a regulator etc.
4. The strategy formulated by the organizations on each levels of hierarchy need to address the stakeholder's expectations.
5. Sometimes, even the business can act as the change agent by promoting convenient products to people to improve their life styles. E.g. use of cooking gas, soap, mobile, computer etc.

Components:

1. Attitude: (evaluative statement)

- The opinion, feeling, judgment that anyone expresses on something.
- Attitude includes things such as individual freedom, democracy, truth and honesty, justice, love and marriage etc.
- Attitude towards work is important as it determines motivation, morale, job satisfaction, productivity etc.

Nepalese perspective:

- Attitude towards blue collar jobs is negative, which create great distinction between white and blue collar workers and office employees. This leads to overabundance of

liberal arts and business graduates and lack of toolmakers, carpenters and welders, even when the employment opportunities are better for the latter.

- Achievement –orientation is lacking in the Nepalese society. Lack of opportunities and capabilities had been largely responsible for such attitude.
- Mostly people are driven by material culture. Thus, knowledge building culture is shadowed by money making culture.
- Young generation is showing willingness to take risk in new venture rather than being employed in other's organization.

2. Religion and Religious Groups

- Religious beliefs, convictions, customs, rituals and festivals differ from one group to another.
- Religion often imposes constraints on the role of individual in society.
- Business firms can suffer heavy losses by ignoring religious sentiments of customers, employees and others.
- Religious groups exert considerable influence on activities of the business groups.
- Thus, business must recognize and respect religious sentiments.

Nepalese Perspectives:

- A Hindu society is divided into four *Varnas-Brahmins, Kshatriyas, Vaishyas and Sudras* and consider higher to lower respectively.
- There is still existence of discrimination based on caste system.
- Some Islamic societies limit job opportunities for women. Similarly, as a religious requirement, the Muslims go for fasting from morning to evening, during the month of Ramadan.
- Negative demand for beef product in Nepal.
- In the Interim Constitution, Nepal is considered as a secular state.

3. Language

- Language is the means through which people communicate, exchange ideas, view, opinion to each others.
- Language is considered as a mirror of a culture.
- It provides access to local society.
- Marketing plans become costlier and more complex due to huge diversity in language.

Nepalese Perspectives

- Nepali language is considered as a national language and 48.61 percent of total population speaks this language (CBS, 2011).
- There are 38 registered languages which are spoken in whole nation.

4. Education:

- Education in its broadest, general sense is the means through which the aims and habits of a group of people sustain from one generation to the next. In other words, education is the formal process by which society deliberately transmits its accumulated knowledge, skills, customs and values from one generation to another.(Wikipedia)
- The education environment in any country influences virtually every aspects of managerial and industrial life.
- Countries rich in educational facilities vastly attract high wage industries.
- By investing in education, a country can attract “Brain-Power” industries.
- The level of literacy determines the nature of advertising packaging, quality of marketing research and distribution system.
- The market potential of a country depends on education.

Nepalese Perspectives:

- The literacy rate of Nepal has reached to 69 percent in 2010. Similarly, the literacy rate among the 6-14 years group reach to 87 percent.
- In 2011, the number of school was 7559 with an enrollment student of about 0.81 millions.
- Lack of qualified manpower and infrastructure development hinder the quality of the educational institution in Nepal.
- Twelve universities (T.U., K.U., Nepal Sanskrit University, Pokhara University, Purbanchal University etc.) are currently in operation in Nepal.
- Government spending on education is 6.7% of the GDP in 2014/15.

5. Social Institution

- A social institution may be defined as an organizational system which functions to satisfy basic social needs by providing an ordered framework linking the individual to the larger culture. E.g. family, marriage, government, religion etc.
- **Family System:** Joint family system is prevalent in Nepal. However due to globalization, migration, and change in attitude of living, joint family is being split into smaller units of nuclear family.
- This change in family structure increases the demand of flats, vehicles, catering services (packed lunches), baby sitters etc .In addition; it also increases the demand of old-age homes, child care center, etc.
- **Marriage:** Marriage is one of the basic elements of culture and people’s attitude towards marriage influences culture a lot. It is a social event that concerns the whole society.
- Since, marriage is a family affair in Nepal. The marriage season is a big opportunity for business. E.g. demand for jewellery, kitchen ware, Honey-moon package, household furniture, vehicles etc is huge during marriage seasons.

6. Class Structure:

- Social class structure is a set of concepts in the social sciences in which people are grouped into a set of hierarchical social categories. E.g. upper class, middle class, lower class.
 - The upper class is the social class composed of those who are wealthy, well born, or both. The middle class are the broad group of people in contemporary society who fall socio-economically between lower class and upper class. The lower class (Occasionally described as working class) is those employed in low-paying wage jobs with very little economic security.
 - In Nepal However, there are four class structure, upper class, middle class, lower middle class and poor.
7. **Business Culture (etiquette):** It is a code of behavior that clearly defines the expectations for social behavior according to contemporary conventional norms within the society, social class or group.(way of doing business)
- Business etiquette can vary significantly in different countries, which is invariably related to their culture. For example: A notable difference between Chinese and Western business etiquette is conflict handling. Chinese businesses prefer to look upon relationship management to avoid conflicts stemmed from a culture that heavily relies on Guanxi. While the west leaves resolution of conflict to the interpretations of law through contracts and lawyers.
 - In Nepal, Majority of private sector business firms are owned by family owners. The interest of these owners is on profit and family. They look for the family interests to make business decisions rather professionalism of their management practices. Their interests are more on capital accumulation rather than expansion of business and professional activities

- a. **Explain the impact of social cultural environment in business organization.**
- b. **Explain the components of social cultural environment.**

Unit 6 Technological Environment

Concept: **Technology** is the making, modification, usage, and knowledge of tools, machines, techniques, crafts, systems, methods of organization, in order to solve a problem, improve a pre-existing solution to a problem, achieve a goal or perform a specific function. It can also refer to the collection of such tools, machinery, modifications, arrangements and procedures.

“Technological Environment means the development in the field of technology which affects business by new inventions of productions and other improvements in techniques to perform the business work. “

Those technological factors which impact the business operation is called technological environment.

Types of Technology:

Technology can be classified in several ways. For example, blueprints, machinery, equipment and other capital goods are sometimes referred to as **hard technology** while **soft technology** includes management know-how, finance, marketing and administrative techniques. When a relatively primitive (traditional) technology is used in the production process, the technology is usually referred to as labour-intensive. A highly advanced technology, on the other hand, is generally termed capital-intensive.

Components of Technological Environment:

- a. **Level of Technology:** a. Labour based Technology b. Capital based technology
- b. **Pace of Technological Changes:** Technological changes influences organization in the following ways.
 - It can make existing industries obsolete.
 - It can rejuvenate (revitalize) the existing industries through product improvement or cost reduction.
 - It can create entirely new industries.
 - It can increase government regulation.
- c. **Technological Transfer:** Technology transfer implies technology imported from technologically advanced foreign countries. Technology transfer can be through:

- Globalization (MNCs)
 - Projects (Turnkey Projects:- ready for immediate use or operation)
 - Trade(sale of equipment by the manufacturer)
 - Training assistance (Bilateral and multilateral donors provide technical assistance)
- d. **Research and Development (R & D):** R & D is the essence of innovation.
- Customer expect new products of superior quality which are safe, comfortable and environment friendly.

Relationship between business and technology

Technology is the backbone of running any successful business in the modern society. The kind of business setup we have today requires an entrepreneur to take note of the ever evolving technology and keep pace. Many business men would be sincerely surprised at the degree of impact modern technology can make in their business.

Impact of technology in business:

a. **Positive Effects:**

- Productivity
- Competitive advantage
- Innovation
- Increase in profit
- Customer value

b. **Negative Effects:**

- Capital Burden : Huge investment
- Threat of quick replacement
- Increase in cost: regular maintenance
- Need of skilled manpower.

Human Factor and Technology

Human Factors (Ergonomics): Human factors are the study of how humans behave physically and psychologically in relation to particular environments, products, or services. In other words, Human Factor is the scientific application of knowledge with the aim of making products, system, services and environments safe, efficient and easy to use.

Ergonomics is the science of the design of equipment, especially so as to reduce operator fatigue (tiredness), discomfort and injury.

Effective implementation of technology is totally depending on the human factor. Their knowledge, skills, and abilities determine the technology effectiveness and efficiency. Technology must address natural (physical and mental) abilities and ensures success and safety. It should add the value in human operation. There must be a close match between technology and human factors for enhancing effectiveness.

Science and Technology Policy 2005

Science and Technology policy was adopted by Nepal in 1989 for the overall development of scientific creativity. The amended S & T policy 2005 gave priority on;

- To use science and technology as a powerful means to increase production and productivity of the country.
- To create an environment for the maximum utilization of knowledge and skill of science and technology available in regional and international arena by promoting mutual cooperation with the bilateral, multilateral, regional and international organizations.
- To promote participation of private sector in the development of science and technology.
- To develop and mobilize skilled human resources.
- To extend the development of technology to the rural levels.
- To create a conducive environment to maintain high morale of the scientist and technologists and minimize the brain drain.
- To integrate university level teaching with research in science and technology.
- Embrace the concept of sustainable development, natural resource management and environmental protection in formulation and implementation of science and technology projects.
- Provide quality education in science and technology from primary education level.

Strategies formulated to address technology policy are as follows:

- Ensuring maximum utilization of available resources.
- Developing and adopting appropriate technology through the mobilization of private sector.
- Developing of a mechanism to conduct research and development activities.
- Contributing in the social-economic development of people through the development of knowledge and skills in the science and technology sector.
- Encouraging universities, concerned institutions and individuals in scientific researches.

Information Technology Policy -2009

Information Technology (IT) policy aims to build a knowledge based society and industries.

Major policies under IT policy 2009 are:

- To declare information technology sectors a prioritized sector.
- To follow a single-door system for the development of information technology.
- To create conducive (favorable) environment that will attract investment in the private sector, keeping in view the private sector's role in the development of information technology.
- To provide internet facilities to all Village Development committees of the country in phases.
- To render assistance to educational institutions and encourage native and foreign training as a necessity of fulfilling the requirement of qualified manpower in various fields pertaining to information technology.
- To prioritize research and development of information technology.
- To computerize the records of each governmental office and build websites for them for the flow of information.
- To increase the use of computers in the private sector.

- To develop physical and virtual information technology park in various places with the private sector's participation for the development of information technology.
- To use information technology to promote e-commerce, e-education, e-health, among others, and to transfer technology in rural areas.
- To establish National Information Technology Centre.
- To establish a national level fund by mobilizing the resources obtained from Nepal Government, donor agencies, and private sectors so as to contribute to research and development of information technology and other activities pertaining to it.
- To establish venture capital funds with the joint participation of public and private sectors.
- To include computer education in the curriculum from the school level and broaden its scope.
- To establish Nepal in the global market through the use of information technology.
- To draft necessary laws that provides legal sanctions to the use of information technology.

Electronic Transaction Act-2007

The Electronic Transaction Act-2007 (ETA) was enacted to create a predictable legal environment for E-commerce. This act makes legal provisions for authentication and regulation for the recognition, true-ship, integrity and reliability of creation, production, processing, storage, and communication and dissemination system of electronic records by making reliable and secured to the transactions carried out by means of electronic data interchange and other means of electronic communication. The act makes provisions for controlling of unauthorized use or illegally changes in any electronic record.

In this Act:

- **Electronic** means created, recorded, transmitted or stored in digital or other intangible form by electronic, magnetic or optical means or by any other means.

- **Electronic Agent** means a computer program or other electronic means used to initiate activity.
- **Electronic Signature** means electronic form of signature by a person in electronic records.

ETA-2007 addresses the following issues:

- It clearly defines the rights and obligations of the transacting parties and addresses the legal aspects of electronic contracts including digital signature for authentication and non-rejection.
- It has a provision of electronic signature for all government departments and legal bodies and can publish documents in electronic form as well as accept the document from other parties in electronic form without changing their respective acts. In addition, it also allows public bodies to issue permits and licenses electronically.
- ETA specifies that network service provider will not be subject to criminal or civil liability for third party material, in relation to which they are merely the host. However legally restricted content may subject to crime.
- Under ETA, there is a provision of appointment of Controller and certifying authority for enabling and regulating the process of licensing, recognition of foreign certification authorities (CA) etc. Besides, The Controller may, as per the necessity, appoint an Auditor in each year on contract to audit the performance of the Certifying Authority.

Present Level of Technology adopted by Nepalese Business

The level of Technology in Nepalese business can be examined from the view point of traditional and modern technology:

1. **Level of Traditional Technology:** Nepal is rich in many traditional technologies. We have good technical know-how in following areas:
 - **Metallurgy:** The sound knowledge of metallurgy of Nepalese craftsmen is reflected in images and status of bronze, copper, gold and silver found in many temples and stupas.
 - **Pottery:** The knowledge about manipulation and combination of different clays is still used to shape objects through traditional potter's wheel.

- Architecture and construction: The architecture and civil engineering technology blended with art and culture is manifested in temples, pagodas, stupas and palaces.
 - Textile manufacturing: Nepal has own technology especially in processing raw materials, spinning and weaving. Handmade Nepalese carpets are world famous.
 - Paper manufacture: Nepali papers are well known for its durability and softness. Printed Nepali paper products are the important item for export from Nepal.
 - Food Technology: The traditional food technology of brewing homemade beverages, preserving meats, fruits and vegetables, preparation of dry-food is still prevalent.
 - Agriculture and irrigation: Several mechanical devices for agriculture and irrigation are still being used in Nepal. Kol, Pannighatta, Dhiki, Jaatoo are the marvels of traditional technology.
2. **Level of Modern Technology:** After liberalization of the Nepalese economy, the use of modern technology in business is rising. The current state of modern technology in business is indicated by following scenario:
- Industrial application:**
- Telecommunication and internet providers are using satellite –based technologies.
 - Sophisticated technology is increasing in hydro-power industry and health related services.
 - Solar power is increasingly being used as new technology.
 - In agro-based industries, biotechnology and tissue culture technology is used.
 - Computer technology is used for teaching purpose.
 - Automated and assembly line technology are being used in private manufacturing industries.
3. **Education and Training:**
- There are more than 3 dozens colleges under Tribhuvan University, Purbanchan University and Pokhara University is providing higher technical

education. Besides, Center for Technical Education and Vocational Training (CTEVT) is also providing short-term and long-term skill based education.

4. **Research and Development:**

- Research is dominated by universities and government research agencies.
- Less relation with industrial sector.
- Mostly organizations are depended on imported technology.
- Little awareness on importance of RD.
- However, agriculture sector, such as Fishery, Cultivation, Irrigation etc are using new and improved technology in accessible areas.
- Government is also promoting new technology development on agriculture, other industries by providing the facilities of tax credit on imported technology, training and development programs, credit availability etc.

5. **Transfer of Technology:**

- FDI, joint ventures, turnkey projects, licensing, contract manufacturing and franchising are the means of technology transfer. The scale of operation, the nature of production process, the relative cost of labor and the cost of adopting the technology determines the technology transfer rate.
- In recent years, FDI of multinational companies from China, India, USA, South Korea etc. have transferred modern technology in Nepal. E.g. Unilever, Ncell, Tuborg, Foreign Joint-venture banks, KFC etc. are using and facilitating transfer of technology in Nepal,
- Among the countries that have established foreign investment industries in Nepal, China ranks first (695) while India is at the second place (588), United States of America third, (250), South Korea fourth (216), and Japan at fifth place (194).
- Gradual increase in the number of foreign investment industries licensed for operation, and employment generated from these industries have given positive indication of their role in the overall industrial development. (Data source Economic survey 2014/15).



Unit 7 Asian and Global Environment

Globalization Concept:

- The process of becoming a part of global village is globalization.
- Globalization is the process of integrating nations and peoples—politically, economically, and culturally—into a larger community.
- Globalization most often refers to the increasing degree of connection between various countries and their economies.
- Globalization refers to the increasing unification of the world's economic order through reduction of such barriers to international trade as tariffs, export fees, and import quotas. The goal is to increase material wealth, goods, and services through an international division of labor by efficiencies catalyzed by international relations, specialization and competition. (Wikipedia)

Forms of Globalization:

- Economic Globalization:** Economic globalization can be defined as the process of increasing economic integration between two countries, leading to the emergence of a global marketplace or a single world market.
 - Increasing deregulation, privatization, ease in transportation, and improved communication lead to economic globalization.
 - Economic globalization is promoted by WTO, SAFTA, BIMSTEC, ASEAN etc. in Nepal.
- Cultural Globalization:** Cultural globalization refers to the transmission of ideas, meanings and values around the world in such a way as to extend and intensify social relations.
 - This process is marked by the common consumption of cultures that have been diffused by the Internet, popular culture media, and international travel.
 - Western Hip-hop, pop music, foods, movies are being a part of Nepalese Youth.
- Political Globalization:** It refers to the integration of the world in terms of political ideology.
 - Political globalization is when governmental action takes place on a global level, where responsibilities, such as the welfare of citizens and economic growth, are acted upon by an international political body.

- Uniting politically for addressing the common needs of nations.
- d. **Environmental /Ecological Globalization:** It refers to the integration of the world in terms of environmental issues such as; global pollution, ozone layer depletion, loss of bio –diversity, acid rain etc.
 - It further deals with global environmental law and policies.

Drivers of Globalization:

- Political
- Technological
- Market
- Cost
- Competition

Regional Economic grouping of Nations

Regional integration can be defined as the association of nations in a specific area or region of the world.

The major objectives of regional integrations are:

- To promote economic activities within the region for mutual betterment.
- To promote free flow of goods between nations.
- To remove the trade and other barriers gradually among nations.
- To build trust and cooperation between nations

Regional Trade Agreement in South Asia

South Asian Association for Regional Cooperation (SAARC) was established in 8th December 1985 with 7 member states, Nepal, Indian, Bhutan, Bangladesh, Maldives, Pakistan, and Sri Lanka. In 2007 Afghanistan became an 8th member state in SAARC.

SAARC Preferential Trading Agreement (SAPTA):

SAPTA was an attempt of the SAARC countries to promote economic cooperation in them. In December 1991, the Sixth Summit held in Colombo approved the establishment of an Inter-Governmental Group (IGG) to formulate an agreement to establish a SAARC Preferential Trading Arrangement (SAPTA) by 1997. Given

the consensus within SAARC, the Agreement on SAPTA was signed on 11 April 1993 and entered into force on 7 December 1995 well in advance of the date stipulated by the Colombo Summit. The Agreement reflected the desire of the Member States to promote and sustain mutual trade and economic cooperation within the SAARC region through the exchange of concessions.

The basic principles underlying SAPTA are:

- *overall reciprocity and mutuality of advantages* so as to benefit equitably all Contracting States, taking into account their respective level of economic and industrial development, the pattern of their external trade, and trade and tariff policies and systems;
- negotiation of *tariff reform* step by step, improved and extended in successive stages through periodic reviews;
- recognition of the special needs of the Least Developed Contracting States and agreement on *concrete preferential measures* in their favor; and
- Inclusion of all products, manufactures and commodities in their raw, semi-processed and processed forms.

Four rounds of trade negotiations have been concluded under SAPTA covering over 5000 commodities. Each Round contributed to an incremental trend in the product coverage and the deepening of tariff concessions over previous Rounds.

South Asian Free Trade Area (SAFTA)

The Agreement on the South Asian Free Trade Area is an agreement reached at the 12th SAARC summit at Islamabad, capital of Pakistan on 6 January 2004. It creates a framework for the creation of a free trade area covering 1.4 billion people in India, Pakistan, Nepal, Sri Lanka, Bangladesh, Bhutan and the Maldives. **The seven foreign ministers of the region signed a framework agreement on SAFTA with zero customs duty on the trade of practically all products in the region by end 2016.** The new agreement i.e. SAFTA, came into being on 1 January 2006 and will be operational following the ratification of the agreement by the seven governments.

SAFTA requires the developing countries in South Asia that is, India, Pakistan and Sri Lanka, to bring their duties down to 20 percent in the first phase of the two year period ending in 2007. In the final five year phase ending 2012, the 20 percent duty

will be reduced to zero in a series of annual cuts. The least developed nations in South Asia consisting of Nepal, Bhutan, Bangladesh and Maldives have an additional three years to reduce tariffs to zero. India and Pakistan ratified the treaty in 2009, whereas Afghanistan as the 8th member state of the SAARC ratified the SAFTA protocol on the 4th of May 2011.

- The objective of the agreement is to promote good competition in the free trade area and to provide equitable benefits to all the countries involved in the contracts.
- It aimed to benefit the people of the country by bringing transparency and integrity among the nations.
- SAFTA was also formed in order to increase the level of trade and economic cooperation among the SAARC nations by reducing the tariff and barriers and also to provide special preference to the Least Developed Countries (LDCs) among the SAARC nations.

The impacts of SAFTA on Nepal's Economy:

Positive Effects

- a. The tariff and non-tariff concessions negotiated and exchanged amongst member states shall be incorporated in the national schedules of concessions.
- b. Member countries can focus on development, production and trading of products that provide them sustainable comparative advantages. For example, Nepal and Bhutan can focus in tourism and hydropower, Bangladesh can focus on natural gas and fisheries.
- c. SAFTA will help SARRC members to present strong voice regarding their common problems in multilateral agreements.
- d. Free trade will increase people's movement between countries.
- e. Being a LDC, Nepal further receive following privilege;
 - Duty –free access, exclusive tariff preference or deeper tariff preference for export product.
 - Special consideration of export from LDC member states in the application of safe guard measures.

Negative Effect or limitation

- a. The region is not cohesive in the same sense that it has diversity in socio-political and economic conditions. Similarly, there is also vast difference among countries in their size, location and infrastructure.
- b. SAARC countries import products from non-member countries though the product is sufficiently produced in the region. This indicates weaker trade links among SAARC countries.
- c. There are political consideration and geographical disadvantages for some countries ,which are responsible for affecting intra-regional trading.(The case of India and Pakistan)
- d. Informal trade in the borders of the countries has been increasing. This has adversely affected the formal flow of trade between the countries. There is a greater flow of primary commodities within the region. The capital and technology that are required to process these commodities are lacking in the region .Hence, the intra-regional flow of capital and technology is very limited.
- e. Transit is another issue for increasing trade with SAARC. There are several transit problems for Nepal and Bhutan. Free trade within the region cannot flourish unless these transit problems are removed. Nepal suffers from high transport costs as it is at a disadvantaged geographical position.
- f. Intra-regional movement of people is also equally important for promoting trade and investment. There are many formalities and entry problems at the borders, which make the free intra-regional movement of people difficult.

Bay of Bengal Initiative for Multi- Sectoral and Technical Economic Cooperation (BIMSTEC)

- **On 6 June 1997**, a new sub-regional grouping was formed in Bangkok and given the name BIST-EC (Bangladesh, India, Sri Lanka, and Thailand Economic Cooperation).
- After membership granted to Myanmar in **22nd December 1997** the name was changed to BIMST-EC.

- Nepal was granted observer status by the second Ministerial Meeting in Dhaka in December 1998. Subsequently, full membership has been granted to Nepal and Bhutan in **2004**.
- In the first Summit on 31 July 2004, leaders of the group agreed that the name of the grouping should be known as BIMSTEC or the **Bay of Bengal Initiative for Multi-Sectoral Technical and Economic Cooperation**.

BIMSTEC Priority sectors:

BIMSTEC has thirteen priority sectors cover all areas of cooperation.

- Trade and Investment, led by Bangladesh
- Transport and Communication, led by India
- Energy, led by Myanmar
- Tourism, led by India
- Technology, led by Sri Lanka
- Fisheries, led by Thailand

(upto 19th November 1998)

- Agriculture, led by Myanmar
- Public Health, led by Thailand
- Poverty Alleviation, led by Nepal
- Counter-Terrorism and Transnational Crime, led by India
- Environment and Natural Disaster Management, led by India
- Culture, led by Bhutan
- People to People contact, led by Thailand

(from 19th December 2005)

Major Objectives of BIMSTEC:

- To create an enabling environment for rapid economic development, accelerate social progress in the sub-region.

- To promote active collaboration and mutual assistance on matters of common interest.
- To provide assistance to each other in the form of training and research facilities.
- To cooperate more effectively in joint efforts that are supportive of and complementary to national development plans of member states.
- To maintain close and beneficial cooperation with existing international and regional organizations.
- To cooperate in projects that can be dealt with most productively on a sub regional basis and which make best use of available synergies.

Difference between SAFTA and BIMSTEC

SAFTA	BIMSTEC
1. SAFTA includes only trade in goods	1. BIMSTEC covers both trade in goods and services.
2. SAFTA's aim is to bring down the tariff to a 0-5 percent level.	2. BIMSTEC aims for total elimination of tariffs.

***Pakistan and Maldives are not the members of BIMSTEC and Thailand and Myanmar are not the part of SAFTA. This composition of memberships would create conflicting obligation.**

World Trade Organization (WTO)

The WTO's predecessor, the **General Agreement on Tariffs and Trade (GATT)**, was established after World War II in the wake of other new multilateral institutions dedicated to international economic cooperation - notably the Bretton Woods institutions known as the World Bank and the International Monetary Fund.

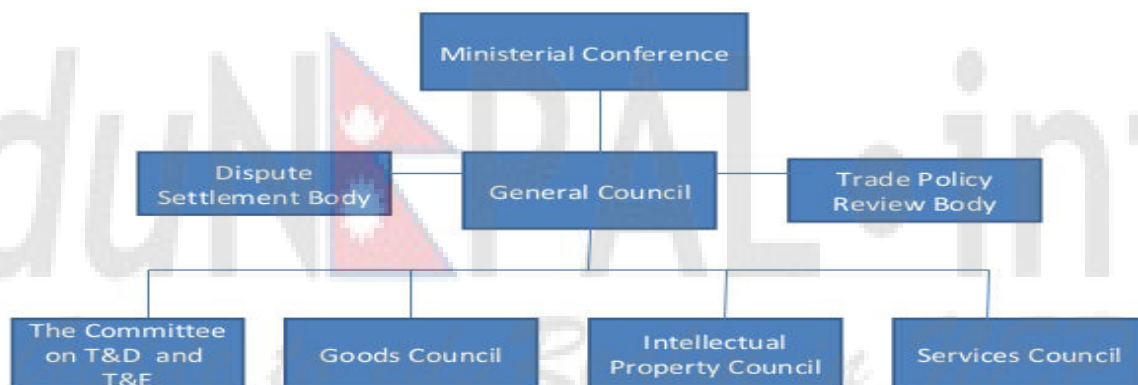
Well before GATT's 40th anniversary, its members concluded that the GATT system was straining to adapt to a new globalizing world economy. In response to the problems identified in the 1982 Ministerial Declaration the eighth GATT round — known as the Uruguay Round — was launched in **September 1986**, in Punta del Este, Uruguay. It was the biggest negotiating mandate on trade ever agreed: the

talks were going to extend the trading system into several new areas, notably trade in services and intellectual property, and to reform trade in the sensitive sectors of agriculture and textiles; all the original GATT articles were up for review.

The Final Act concluding the Uruguay Round and officially establishing the WTO regime was signed during the April 1994 ministerial meeting at Marrakesh, Morocco, and hence is known as the Marrakesh Agreement. From 1st January 1995 GATT officially succeeded to WTO.

Structure of WTO

STRUCTURES OF WTO



- Ministerial Conference: It is a apex body of WTO. It meets at least once in every two years.
- General Council: It consists of ambassador level members. It oversees the day-to-day operation and management of WTO.
- Trade policy review body: It periodically reviews the trade policies and practices of all member states.
- Dispute settlement body: It looks after the implementation and effectiveness of the dispute resolution process for all WTO agreements.
- Other councils: Goods and Service councils, Trade development and environment committees, Intellectual property right council.

Functions of WTO

- It oversees the implementation, administration and operation of the covered agreements.
- It provides a forum for negotiations and for settling disputes.
- It is the WTO's duty to review and propagate the national trade policies, and to ensure the coherence and transparency of trade policies through surveillance in global economic policy-making.
- The assistance of developing, least-developed and low-income countries in transition to adjust to WTO rules and disciplines through technical cooperation and training.
- Regular assessments of the global trade picture in its annual publications and research reports on specific topics are produced by the organization.
- Finally, the WTO cooperates closely with the two other components of the Bretton Woods system, the IMF and the World Bank.

Nepal's Membership: Opportunities and Threats for the Nepalese Business

Opportunities:

- a. **Market access:** Market access opportunities provided by the WTO system can lead to further investment addressing the constraint of limited domestic market for economic scale of productive operation, which will also help to raise investment, economic production of goods and services and industrialization process.
- b. **Special and differential treatments:** The WTO offers special and differential treatments for LDCs like Nepal. These include longer transition periods for the implementation of the agreements, technical support, due restraint on disputes involving LDCs, and special treatment while liberalizing the services sector.
- c. **Transit right:** One of the reasons why Nepal had sought membership of the General Agreement on Tariffs and Trade (GATT) was the transit problem it had encountered during the Indo-Nepal transit stalemate in 1989. It was expected that under the GATT/WTO, Nepal would be granted access to the sea as a right as per Article V of the GATT. In theory, as a WTO Member,

Nepal should benefit from access to international markets without discrimination.

- d. **Policy stability:** The WTO regime provides opportunity for policy stability internally which is of utmost urgency in the context of the existing political instability in order to provide an environment of predictability for investment and industrialization.
- e. **Attract foreign direct investment: Policy** stability due to WTO membership provides credibility to the nation in terms of economic activities with predictable environment. Such environment is essential to attract foreign direct investment (FDI) and technology to expedite industrialization process in Nepal. Additionally, the mandatory provision of WTO in protecting intellectual property rights creates a better situation for attracting investment
- f. **Gearing up domestic institutional capability:** Joining WTO reflects national commitment in gearing up domestic institutional capability in delivering services related to trade and economic transactions. Similarly, the challenge to business community in enhancing their competitive capability certainly builds pressure to look at their own existing lapses and inefficiency, paving the way for the effective actions to correct them.
- g. **Benefit from liberalization:** Nepal has and could benefit from liberalization through better allocation of natural resources towards industries with the strongest advantages, enhanced learning and newer technology from interacting with the rest of the world.
- h. **Access to dispute settlement body:** WTO's best achievement is dispute settlement body. A WTO membership would accord Nepal the right to challenge in any measures taken by trading partners, which are against Nepal's economic and trade interest.
- i. **Mobilization of trade related technical assistance:** WTO provides and has initiated the programs of aid for trade and Enhanced Integrated Framework (EIF) to enhance the supply side capacity of the developing countries.

Challenges:

- a. **Employment:** Employment opportunities may dry up by using sophisticated technology to boost the local organization to meet WTO standard competition.
- b. **Negotiation for more benefits:** The task of negotiation for accession with the objective of gaining more and losing less is challenging for Nepal primarily due to lack of knowledgeable and skillful human resources with the government as well as private sector.
- c. **Strengthening Institution:** Given the financial constraint of the government and the lack of proper policy intervention to cope with the responsibility and obligations posed by the WTO membership, the task of strengthening institutions seems difficult to achieve.
- d. **Specialization in some products and services:** This is a challenging task of Nepal, when there is lack of proper physical and institutional infrastructure, capital and resources for industrialization.
- e. **Making industries cost effective:** The old industries of Nepal need urgent restructuring and modernization in order to make them capable of producing quality goods at a competitive price. It is not possible to make industries cost effective without investment.
- f. **Income distribution and Poverty:** Because of the powerful impacts of MNCs and INGOs, which influence the both rule of laws (in creating monopoly market, less employment and conflict on local bodies) and government the country may force to remain in low equilibrium poverty trap.